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DEFENSE INDUSTRY UPDATE--DEFENSE INDUSTRY OPPORTUNITIES, NORWAY

Sebastian Remoy

01/31/2001

I. Overview/Market Background

The Norwegian defense forces are currently going through a very challenging period of reorganization. Two recent defense planning reports have revealed that planned budget levels could lead to drastic cuts in Norway's defense structure. Several major investment projects have been scrapped. Most notable among these are the cancellation of the replacement of Norway's aging F-5 and F-16 fighters lost through attrition, and the delay in procurement of fast patrol boats.

The Defense Study 2000 Report, issued by the Chief of Defense General Sigurd Frisvold (ChoD), is a resource based, not a requirements based, study. Its goal is to outline what sort of defense Norway can have for a certain sum of money. The resource level the ChoD chose was \$2.7 billion a year over 20 years. The point of departure for previous CHoD Defense Studies has previously always been based on defense needs rather than resources.

The other report having a major influence on defense planning has been issued by the Norwegian Defense Policy Commission (FPU). This report is based on a more traditional needs-based approach. The Minister of Defense, Bjorn Tore Godal, has noted how similar the findings of these two reports are, despite the fact that one is derived from a resource-based premise, and the other from a needs-based premise.

Both reports promote the continuation of conscription, albeit with a significantly reduced conscription period. This indicates a now widely held perception that the threat of invasion from Russia is greatly reduced. The focus of the Norwegian defense apparatus is moving rapidly toward international peace keeping activities. This does not mean that Norway is abandoning a "total defense" capability. The "Total Defense" concept involves the ability to mobilize all civil and military resources in the most effective manner when a comprehensive effort is required for the defense of the nation's territory, population and sovereignty.

II. Decision Making/Procurement Process

Although a considerable share (50 percent in terms of value) of defense material is imported from foreign suppliers, Norwegian companies normally secure the majority of the defense material contracts; some through direct awards, and others by joint ventures or "regular" offset arrangements. Approximately 50 companies are considered "qualified" suppliers of specialized military equipment. Several contracts have recently been won by local manufacturers specializing in major product sectors such as tactical communication and command/control

systems, and smaller specialized naval vessels.

All military equipment acquisitions in Norway are under the auspices of the Norwegian MOD. The relevant agency within the MOD is listed below.

Royal Norwegian Ministry of Defense
Att: FD IV-6
Myntgaten 1
P.O.Box 8126
Dep 0032 Oslo, Norway
Tel: (47) 23 09 80 00
Fax: (47) 23 09 23 23

Weapons acquisitions are handled by the procurement offices within each of the military forces under the Norwegian Ministry of Defense. The forces evaluate proposals/systems based on technical performance and cost, while the Ministry of Defense evaluates the offset proposals. Most procurement plans are advertised in the monthly publication, "Norwegian Defense Contracts," issued by the Norwegian Defense Command. Information is provided for both prime and subcontractor levels. This publication can be obtained from the following agency.

Norwegian Defense Contracts
HQ Defense Command Norway
WEAG Focal Point
Oslo Mil/Loeren
N-0018 Oslo, Norway

In addition to the procurement plans advertised in the monthly publication, "Norwegian Defense Contracts," issued by the Norwegian Army Materiel Command, Budget and Accounts Office, the MOD publishes an industrial protocol covering cooperation/joint ventures, general purchase provisions, and offset agreement samples. The MOD publishes (in English) "How to do business with the Norwegian Armed Forces". Copies of this document can be obtained from the following agency.

The Ministry of Defense
Press and Information Department
Myntgata 1
0151 Oslo, Norway
Tel: (47) 23 09 23 03

Regarding bid procedures, Norwegian defense authorities require extensive information about the bidding company and its capabilities as well as its products. Procurement activities may require testing a product at their local facilities or visiting the test sites of the suppliers.

Most NATO tender notifications are channeled through the various embassies. The American Embassy (FCS and the Office of Defense Cooperation) forwards these notifications back to the U.S. Department of Commerce in Washington for dissemination via electronic bulletin boards, the

National Trade Data Bank, and other methods for American companies to access the major opportunities in the Norwegian market.

Other defense procurements are advertised in the Norsk Lysningsblad (Norway's Gazette); however, in most cases the solicitations are mailed directly to suppliers known to the purchasing office. At least three bidders are included for each procurement. The Ministry of Defense does not regularly schedule conferences to announce upcoming military procurements, but it does hold informative seminars in special cases.

As in other countries, local representation by foreign firms has proven very useful, if not essential. Most foreign firms successful in selling to Norway have local representation or sales offices, or have marketed themselves directly to the military authorities and the procurement activities through product presentations and regular personal contact.

Offsets

Official Norwegian policy is that offset/compensation is required on contracts above NOK 50 million (including options). The requirement is to obtain a hundred percent compensation, but the actual amount of offset has varied with the project. The offset may be either direct or indirect. While previous offset programs mainly were concentrated on direct purchases of industrial commodities from Norwegian industry, the emphasis of the Norwegian Government is now focused on more long-term arrangements involving technology transfer and/or providing technological competence to local defense industry.

The amount and types of offset are determined through negotiations. In-country experience or close contacts are usually a strong advantage, but the defense industry group within the CNBI can be of assistance in developing an offset package.

Specifications are normally included in the solicitation package. If additional specifications are required, they can be obtained from the appropriate contracting agency or the following specification repository:

Defense Combined Materiel Agency
IEPG Focal Point
Oslo Mil/Loeren
0018 Oslo, Norway
Tel: (47) 23 0960 00
Fax: (47) 22 22 54 93

Contract Process

The sealed-bid procedure is the normal procurement method. Military purchases often are made from selected suppliers. Prior to final negotiations, the purchasing office issues a draft contract. At this time, the offset conditions are negotiated by the MOD and agreed upon in an "industrial protocol" prior to contract signature.

Fixed-price, cost-plus, and incentive contracts are used. Fixed-price contracts are used most frequently. The type of contract is normally not negotiable. Norway's general contract provisions are included in Forms 5051 and 5053 (general provisions). They include shipping instructions, technical documentation, work schedule, delivery schedule, payment procedures, and so on. In addition, each contract will have special provisions such as warranties, codification, option rights, obligation to supply spare parts, etc.

Pre-award surveys to assess technical and financial competency are required for procurements of an extensive or complex nature. These are normally handled by the purchasing offices. Pre-award surveys are restricted to the items that are of interest to the buyer in connection with the contemplated procurement. The procurement authority appoints the necessary technical personnel to carry out the supplier analysis and ensures that appropriate agencies participate to the extent necessary.

In the case of large contracts, importance is attributed to appraisals of the supplier's capacity for direction and control and especially the supplier's ability to meet scheduled delivery requirements. All information and data obtained are confidential and will be used only for the purposes for which gathered.

Norway recognizes U.S. security classification procedures. U.S. firms wishing to participate in Norwegian procurements containing classified information should pursue this through U.S. Government sources. Norway has an industrial security regulation comparable to U.S. DOD's 5220.22-R.

Contract administration procedures and the organizations responsible for this service are identified in the general provision form 5053. Unless otherwise specified in the contract, the principles of Allied Quality Assurance Publication No. 4, NATO Quality Inspection System requirements for industry, or equivalent national government publications shall apply. The contracting office has the right, at its own expense, to inspect and observe development and production. Quality assurance services are performed by the Defense Combined Material Agency but the actual responsibility for quality assurance rests with each materiel command.

Notices are not sent routinely to unsuccessful bidders. In special cases, contractors may request that the procuring agency review its contracting process. An additional Administrative Appeal Authority outside the procuring agency is the MOD. If negotiations between the parties fail, and unless they mutually agree to arbitration, the case may be brought before the civil courts.

The Norwegian Ministry of Defense issues annually a list of defense products with duty-free entry provisions. This list is addressed to and received by Norwegian customs authorities and includes, among other items, aircraft and aircraft parts, military products and services connected to the weapons production program between the United States and Norway, and NATO programs concerning equipment lease, exchange, or borrowing, and medical supplies and equipment.

III. Major Programs: Defense Opportunities

It is clear that the ability to react rapidly, and to contribute to international efforts to secure and promote peace in turbulent areas, is an increasingly important goal for Norwegian defense planners. Norway's engagement in Kosovo in 2001 will place a heavy burden on Norwegian defense resources. Early in 2001 Defense Minister Godal will present a long-term proposal to Parliament outlining a "double conversion" plan for the military. The reason Godal describes it as double conversion is because it will entail, on the one hand, scaling down activities to conform with reduced economic parameters, and on the other hand, realigning structures to suit future tasks and technology. Although the cutbacks could result in reduced opportunities for U.S. exporters in some areas, the realignment process could generate new export opportunities for U.S. companies in other areas.

Norway is also under considerable pressure to contribute to NATO's Defense Capabilities Initiative (DCI). CHoD Frisvold recently expressed concern that if the Norwegian military does not keep pace with technological developments, it will not be able to maintain a sufficient level of inter-operability with its NATO partners. The funds left over after core capacities are maintained might not leave enough for investment in new and advanced systems which are being employed by NATO allies. Frisvold also points to the growing technological gap between US and Norway as a major potential obstacle to cooperation on national and international operations.

Defense Budget 2001

In a speech to Defense personnel in Northern Norway, Minister Godal admitted that faced with a choice between cutting operating costs or cutting investment levels, he has chosen to prioritize cutting operating costs. This is relatively good news for U.S. defense contractors. Godal outlined the following new category 1 investment projects for 2001

1. ASW helicopters for the five new frigates and replacement of the Coast Guard's Lynx helicopters.
2. Fifty-two used Leopard 2A4s to give the army added capacity for peace keeping operations.
3. FISBasis is a project to give defense a common information technology infrastructure. This will be used as the platform to acquire common integrated administrative solutions, necessary for efficiency improvements.

The budget proposal for 2001 gives the highest priority to units participating in international operations, border guard units and the King's Guard. Next in order of priority are Navy warships, combat aircraft and the North Norway based 6th Division. Maritime tasks of the Coast Guard will continue to be given priority, while other Norwegian naval presence at sea will be reduced. The Search and Rescue helicopter service will be funded at the same level for 2000.

High priorities will be given to Norway's contribution to KFOR in 2001. From April to October 2001, the NATO-headquarters in Norway and Denmark will jointly take the lead of the KFOR-headquarters in Kosovo. The Commercial Service in Oslo has received requests from Norwegian agents for supplies of riot shields and other civil control equipment.

Other defense procurement projects likely to occur in 2001 are:

- Electronic warfare and countermeasure systems for Royal Norwegian Air Force F-16 fighters, Bell 412 Helicopters and C-130 transport aircraft.
- Secure communications sets for ground forces
- A fully instrumented Combat Maneuver Training area
- Navigation/targeting pods for F16 fighters
- Aircraft communications sets.

Nordic Standard Helicopter Program (NHSP)

Norway, Sweden, Denmark and Finland issued a joint request for information (RFI) in mid-February 1999 to prospective helicopter manufacturers to determine whether it will be possible to undertake a joint acquisition and support program for up to 100 medium heavy lift helicopters. Deliveries are to begin in 2003. The NHSP program is located in the Swedish Defense Material Administration. The Norwegian part of the requirement is for about 14 maritime helicopters, 6-8 to replace old coast guard Lynx aircraft, and 6 antisubmarine warfare helicopters for the new frigates.

IV. Local Industry/Competition

Norway has a group of almost 100 small (by American standards) companies specializing in defense equipment and dual use technologies. There are two major companies of which Kongsberg (previously Norsk Forsvarsteknologi/NFT) is the most well known. All of these companies, some of which are subsidiaries of European companies (e.g. ABB, Siemens, etc), work very closely with the GON, which is adamant on maintaining a viable defense industrial base. Kongsberg recently purchased other Norwegian defense and electronics firms to become stronger in international civilian markets. The GON retains managerial control of Kongsberg by holding a majority of its stock. At the same time the GON is seeking to rebuild Kongsberg into a bigger and more diversified company reminiscent of the "Kongsberg Vaapenfabrik" that was broken up in the late 1980s as a result of the "Kongsberg-Toshiba" export licensing case. There has also been a strong effort on the part of the MOD to support its small defense industry by requiring 100 percent offset for any Norwegian military contracts in excess of 50 million NOK. Moreover, it is not an easy process for an American company to acquire a controlling interest in any Norwegian company nor to manage that company with wide latitude, given the nature of the Norwegian economy and labor practices.

The Norwegian Government is using substantial oil and gas wealth (Norway is the second largest net oil exporter in the world) to further develop a "high-tech" industrial base in Norway. Full employment is one of the major policies of the ruling "Labor" government in Norway. With Norwegian wage rates much higher than in the United States, the GON is seeking to develop industries that are not as "wage-rate sensitive." Consequently, "high-tech" dual use fields and technologies would seem to make sense for Norway. Since the GON has negotiated an "accession agreement" with the European union, there seems to be significant momentum to look more closely at European military equipment and cooperation.

V. Market Access

Although more than 200 U.S. companies have sales subsidiaries in Norway, the most common way of doing business is through agent/distributors. More than 3,000 U.S. companies are represented by Norwegian agent/distributors with a unique but very practical and necessary sales network. Three quarters of Norway's 4.5 million people reside in Southern Norway, and most of the major importers and distributors are headquartered in the Oslo region. Some of these companies have sub-agents or sales offices established in other major Norwegian cities. The rest of the country is made up of widely dispersed, small population centers which are costly to serve due to long distances and high freight expenses. As there are few countrywide, multistore chains and most retailers and distributors are small by American standards. Sub-agents and secondary distribution is the standard and workable method of handling Norway's scattered Northern markets.

With proper market promotion and support, a good local business partner and/or an astute local office, U.S. companies have unusually good prospects in this small, but affluent market. Another factor making it easy for Americans to do business in Norway is that most, if not virtually all, Norwegians speak excellent English.

With the exception of stringent import regulations on agricultural commodities, and to some extent a monopoly on telecommunications equipment, there are very few trade restrictions enforced in Norway. The country is heavily dependent on foreign trade, and its trade policy is generally aimed at expanding its trade and shipping services.

However, since Norway is now a member of the European Economic Area (EEA), the nation is consequently and gradually adapting to EU's technical standards and regulations. Norway, as an EFTA/EEA member, currently enjoys an industrial free trade agreement with all EU member countries. Norway uses the harmonized system (HS) for commodity classification and the import duties are relatively low on products imported from third country suppliers. There are few technical standards enforced and U.S. suppliers have not faced significant trade barriers. However, some obstacles have been experienced in regards to some specialized electrical equipment.

European CENELEC and BASEFA safety standards on electrical equipment for use in hazardous areas are favored in North Sea Oil and Gas Production Facilities and offshore exploration rigs. Also, quality assurance is paramount for all equipment destined for the Norwegian offshore market. Norway has to a large degree adopted the ISO 9000 standards for quality assurance (QA) and quality control (QC). Electrical equipment sold and used by the public (consumer electronics and household electrical appliances) must have an approval from NEMKO, or similar control establishments within the EU. For further information, contact:

Norwegian Electrical Control Board
(Norges Elektriske Materiellkontroll-Nemko)
Gaustadalleen 30
0371 Oslo, Norway

VI. Key Contacts

Listed below are helpful U.S. and Norwegian Government contacts for U.S. firms that are interested in the Norwegian market.

Senior Commercial Officer
USFCS Oslo
American Embassy
Drammensveien 18
0244 Oslo, Norway
Tel: (47) 21-30-87-60
Fax: (47) 22-55-88-03

Chief
Office of Defense Cooperation
American Embassy
Drammensveien 18
0244 Oslo, Norway
Tel: (47) 21-30-86-60
Fax: (47) 22-44-98-92

or US Address
PSC 69 Box 1000
APO AE 09707

Norwegian Government:

Logistics Attaché
Royal Norwegian Embassy
2720 34th Street, NW
Washington, DC 20008
Tel: (202) 331-8222

Defense Combined Materiel Agency
IEPG Focal Point
Oslo Mil/Loeren
0018 Oslo, Norway
Tel: (47) 23 09 61 12

Royal Norwegian Air Force Material
Command
Procurement Division
P.O. Box 10
2007 Kjeller, Norway
Tel: (47) 63 80 80 00
Fax: (47) 63 80 88 99

Norwegian Army Material Command
Purchase and Economics Branch
Lorenveien 38
0585 Oslo
Tel: (47) 22 89 60 00
Fax: (47) 22 49 57 72

Royal Norwegian Navy Material Command
Contracting Branch
P.O. Box 3

N-5078 Haakonsværn, Norway
Tel: (47) 55 50 20 00
Fax: (47) 55 50 25 74

Norwegian Defense Communications and Data Services Administration
Contracting and Procurement Branch
Langkaia 1
0150 Oslo
Tel: (47) 22 40 24 00
Fax: (47) 22 40 24 10

Headquarters Defense Command/Security
Oslo Mil/Huseby
0016 Oslo, Norway
Tel: (47) 22 49 80 80
Fax: (47) 22 49 83 12

Norwegian Defense Research Institute (NDRE)
P.O. Box 235
2001 Kjeller, Norway
Tel: (457) 63 80 70 00
Fax: (47) 63 80 71 15

The following is a list of non-defense agencies which may be helpful to U.S. firms in commercial areas

Royal Norwegian Ministry of Foreign Affairs
(Utenriksdepartementet)
7 Juni Plass 1
P.O. Box 8114 Dep
0032 OSLO, Norway
Tel: (47) 22 24 36 00
Fax: (47) 22 24 95 80

Royal Norwegian Ministry of Industry and Trade
(Nærings- og handelsdepartementet)
P.O. Box 8014 Dep
0033 Oslo, Norway
Tel: (47) 22 24 90 90
Fax: (47) 22 24 95 25

The Royal Ministry of Transportation and
Communications
P.O. Box 8010 Dep
0030 Oslo, Norway
Tel: (47) 22 24 90 90

Fax: (47) 22 34 95 71

The Ministry of Environmental Affairs
(Miljøverndepartementet)

Myntgata 2

P.O. Box 8013 Dep

0030 Oslo, Norway

Tel: (47) 22 24 90 90

Fax: (47) 22 34 95 60

The Norwegian State Pollution Control
(Statens Forurensingstilsyn (SFT))

Stromsveien 96

P.O. Box 8100 Dep

0032 Oslo, Norway

Tel: (47) 22 57 34 00

Fax: (47) 22 67 67 06

Statens Nærings- & Distriktutviklingsfond
((SND) Regional Development Fund)

Akersgaten 13

P.O. Box 448 Sentrum

0104 Oslo, Norway

Tel: (47) 22 00 25 00

Fax: (47) 22 42 96 11